

Sales in-line, gross margins surprise positively

- Atul Ltd reported in line sales of Rs 6.60bn (D.est: Rs 6.70) down by 36.5% YoY. Gross margins expanded by 575bps YoY to 57.0%, which were significantly above our estimate of 51.0%. We believe, gross margins have largely expanded due to benign input costs.
- EBITDA (D.est: Rs 547mn) de-grew by 34.0% YoY to Rs 1.58bn, with an EBITDA margin of 24.0%. The company has controlled its other expenses and power and fuel costs, down by 38.3% YoY and 33.8% YoY respectively. Tax rate stood at 28.0% against 31.8% against 1QFY21, PAT (D.est: Rs 223mn) de-grew by 20.1% YoY to Rs 1.17bn.
- We were anticipating a much weaker quarter and believed FY21E to be a turbulent year due to volume de-growth, however benign input costs and controlled opex has kept Atul Ltds 1QFY21 performance quite healthy.

Outlook and Valuation

ATLP has cumulatively incurred a capex of Rs ~13.0bn over the last 5 years (FY16-20) and is likely to provide earnings visibility over the next 3 years, efficient capital allocation (5 yr avg. RoCE: 22.5%) and 5 yr avg. ROE of 18.0% builds a strong investment case. However, we believe that the impact of COVID-19 on ATLP could be far more detrimental considering the commodity nature of the business and ~70% revenues coming from Auto, Textile, Paints, Construction, Flavors and Fragrances etc. Also, ATLP's life science business (~30% of sales) could act as a near term dampener with falling volumes and prices of 2,4-D. We are valuing Atul's investment book of ~Rs 5.2bn @20% discount at Rs 142/share and 21.0x FY22E EPS to Rs 4,797/share and recommend investors to reduce.

Segment performance (Consolidated)

Life Science segment – Life science segment de-grew by 22.6% YoY to Rs 2.70bn, EBIT margins came down by 120bps YoY. EBIT grew by 27.2% YoY to Rs 510mn, however showed a significant improvement QoQ of 50.5%.

Performance & other chemicals – Performance chemicals segment de-grew by 42.6% YoY to Rs 4.20bn, EBIT margins marginally improved by 30 bps YoY. EBIT de-grew by 41.7% YoY to Rs 855mn.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	6,606	10,406	(36.5)	9,655	(31.6)
Total Expense	5,019	8,003	(37.3)	7,774	(35.4)
EBITDA	1,587	2,403	(34.0)	1,881	(15.6)
Depreciation	331	318	4.3	338	(1.9)
EBIT	1,255	2,085	(39.8)	1,543	(18.6)
Other Income	406	100	307.6	356	14.3
Interest	27	19	42.8	24	13.1
EBT	1,635	2,166	(24.5)	1,875	(12.8)
Tax	459	689	(33.5)	460	(0.2)
RPAT	1,178	1,473	(20.1)	1,413	(16.6)
APAT	1,178	1,473	(20.1)	1,413	(16.6)
			(bps)		(bps)
Gross Margin (%)	57.0	51.2	575	52.5	444
EBITDA Margin (%)	24.0	23.1	93	19.5	454
NPM (%)	17.8	14.2	367	14.6	320
Tax Rate (%)	28.0	31.8	(379)	24.5	353
EBIT Margin (%)	19.0	20.0	(103)	16.0	302

CMP	Rs 4,724
Target / Upside	Rs 4,797 / 2%
BSE Sensex	38,209
NSE Nifty	11,216

Scrip Details

Equity / FV	Rs 297mn / Rs 10
Market Cap	Rs 140bn
	US\$ 2bn
52-week High/Low	Rs 5,445/Rs 2,923
Avg. Volume (no)	32,411
NSE Symbol	ATUL
Bloomberg Code	ATLP IN

Shareholding Pattern Jun'20(%)

Promoters	44.8
MF/Banks/FIs	25.3
FII's	6.7
Public / Others	23.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	21.0	25.5	21.3
EV/EBITDA	14.9	16.5	13.7
ROE (%)	22.7	16.7	18.1
RoACE (%)	21.4	15.7	17.3

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	40,931	43,742	49,579
EBITDA	9,020	8,125	9,642
PAT	6,665	5,489	6,579
EPS (Rs.)	224.5	184.9	221.7

Analyst: Archit Joshi

Tel: +9122 40969726

E-mail: architj@dolatcapital.com

Associate: Tejas Sonawane

Tel: +9122 40969792

E-mail: tejass@dolatcapital.com

Associate: Yash Shah

Tel: +9122 40969751

E-mail: yashs@dolatcapital.com

Exhibit 1: Actual V/s DART Estimates (Rs mn)

Particulars	Actual	Estimated	Variance	Comments
Revenue	6,606	6,700	(1.4)	Inline
EBITDA	1,587	547	190.1	Strong control on Opex and higher than expected gross margins
EBITDA Margin(%)	24.0	8.2	1,585	
PAT	1,178	223	427.6	

Source: Company, DART

Exhibit 2: Change in Estimates

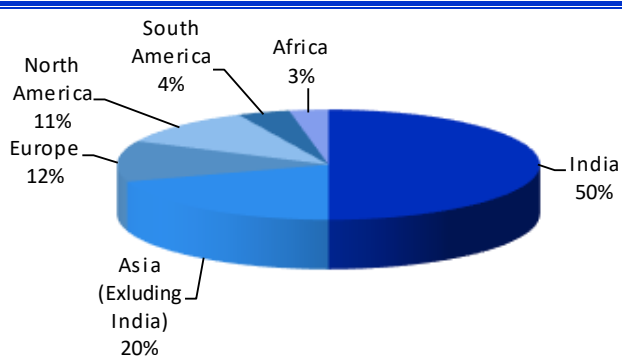
Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	43,742	43,742	-	49,579	49,579	-
EBITDA	8,125	8,125	-	9,642	9,642	-
EBITDA Margin(%)	18.6	18.6	-	19.4	19.4	-
PAT	5,489	5,489	-	6,579	6,579	-
EPS(Rs)	185.0	185.0	-	222.0	222.0	-

Source: Company, DART

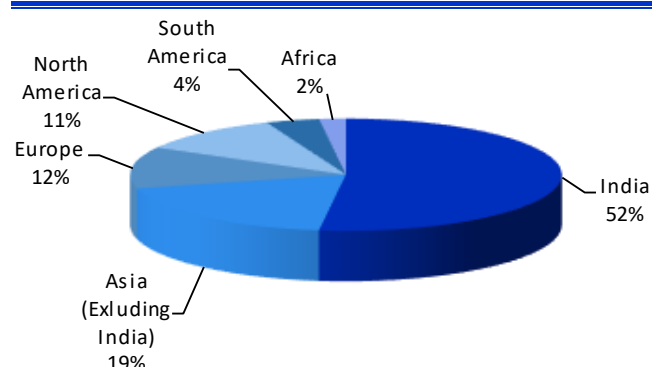
Exhibit 3: Product Mix

Particulars (Rs Mn)	FY16	FY17	FY18	FY19	FY20
Aromatics	4,690	5,370	5,390	7,110	6,940
Bulk Chemicals	1,040	1,380	1,750	2,490	2,860
Colours	3,940	4,070	4,520	5,470	6,260
Crop Protection	4,220	4,550	6,510	7,540	7,030
Polymers	6,990	7,500	8,580	10,480	10,410
Pharma & Intermediates	3,110	3,420	3,670	5,260	4,620
Total	23,990	26,290	30,420	38,350	38,120

Source: Company, DART

Exhibit 4: Geography wise Sales (FY19)


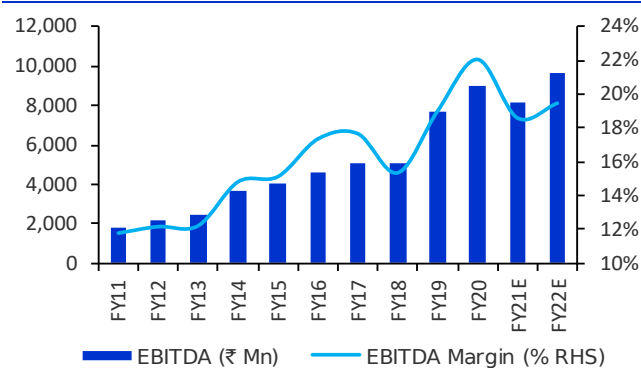
Source: Company, DART

Exhibit 5: Geography wise Sales (FY20)


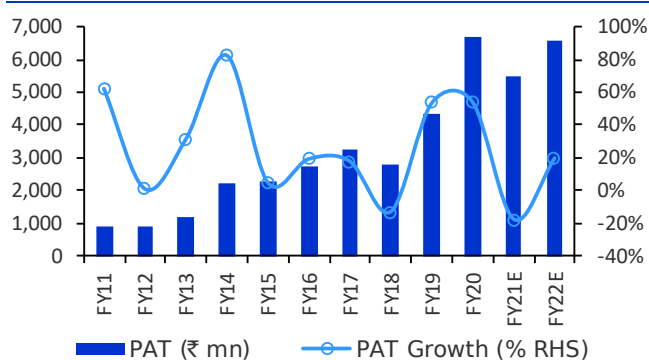
Source: Company, DART

Exhibit 6: Sales (Rs Mn.) & Sales Growth (%)

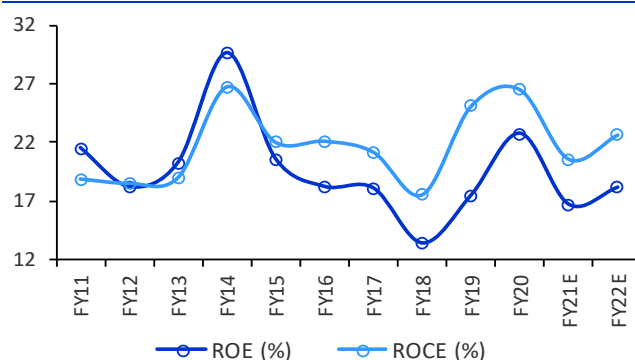

Source: Company, DART

Exhibit 7: EBITDA (Rs Mn.) & EBITDA Margin (%)


Source: Company, DART

Exhibit 8: PAT (Rs Mn.) & PAT Growth (%)


Source: Company, DART

Exhibit 9: ROE (%) & ROCE (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	40,378	40,931	43,742	49,579
Total Expense	32,713	31,911	35,617	39,937
COGS	21,061	19,700	21,667	24,607
Employees Cost	2,598	3,009	3,234	3,520
Other expenses	9,053	9,201	10,716	11,811
EBIDTA	7,666	9,020	8,125	9,642
Depreciation	1,189	1,302	1,466	1,668
EBIT	6,476	7,718	6,660	7,974
Interest	72	94	40	20
Other Income	349	780	650	756
Exc. / E.O. items	0	0	0	0
EBT	6,753	8,404	7,270	8,711
Tax	2,443	1,745	1,791	2,147
RPAT	4,322	6,665	5,489	6,579
Minority Interest	38	45	50	55
Profit/Loss share of associates	50	50	60	70
APAT	4,322	6,665	5,489	6,579

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	297	297	297	297
Minority Interest	238	264	264	264
Reserves & Surplus	26,760	31,252	34,026	37,959
Net Worth	27,057	31,549	34,323	38,256
Total Debt	547	992	742	272
Net Deferred Tax Liability	1,390	1,078	1,078	1,078
Total Capital Employed	29,231	33,883	36,407	39,870

Applications of Funds

Net Block	11,174	11,249	14,044	13,638
CWIP	1,723	3,681	1,000	1,000
Investments	5,516	4,985	4,985	4,985
Current Assets, Loans & Advances	17,021	21,520	23,855	27,925
Inventories	5,118	5,034	5,379	6,369
Receivables	6,985	7,197	8,890	10,348
Cash and Bank Balances	545	354	594	1,991
Loans and Advances	215	332	355	402
Other Current Assets	2,071	2,086	2,119	2,298
Less: Current Liabilities & Provisions	6,203	7,553	7,478	7,678
Payables	3,818	4,798	4,978	5,178
Other Current Liabilities	2,385	2,755	2,500	2,500
sub total				
Net Current Assets	10,818	13,967	16,377	20,247
Total Assets	29,231	33,883	36,407	39,870

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	47.8	51.9	50.5	50.4
EBIDTA Margin	19.0	22.0	18.6	19.4
EBIT Margin	16.0	18.9	15.2	16.1
Tax rate	36.2	20.8	24.6	24.6
Net Profit Margin	10.7	16.3	12.5	13.3
(B) As Percentage of Net Sales (%)				
COGS	52.2	48.1	49.5	49.6
Employee	6.4	7.4	7.4	7.1
Other	22.4	22.5	24.5	23.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	90.1	82.1	166.5	398.7
Inventory days	46	45	45	47
Debtors days	63	64	74	76
Average Cost of Debt	20.4	12.2	4.6	3.9
Payable days	35	43	42	38
Working Capital days	98	125	137	149
FA T/O	3.6	3.6	3.1	3.6
(D) Measures of Investment				
AEPS (Rs)	145.6	224.5	184.9	221.7
CEPS (Rs)	185.7	268.4	234.3	277.8
DPS (Rs)	15.0	42.5	17.0	18.0
Dividend Payout (%)	10.3	18.9	9.2	8.1
BVPS (Rs)	911.6	1063.0	1156.4	1289.0
RoANW (%)	17.5	22.7	16.7	18.1
RoACE (%)	16.5	21.4	15.7	17.3
RoAIC (%)	24.8	24.8	19.2	21.6
(E) Valuation Ratios				
CMP (Rs)	4724	4724	4724	4724
P/E	32.4	21.0	25.5	21.3
Mcap (Rs Mn)	1,40,196	1,40,196	1,40,196	1,40,196
MCap/ Sales	3.5	3.4	3.2	2.8
EV	1,38,110	1,34,318	1,33,827	1,31,960
EV/Sales	3.4	3.3	3.1	2.7
EV/EBITDA	18.0	14.9	16.5	13.7
P/BV	5.2	4.4	4.1	3.7
Dividend Yield (%)	0.3	0.9	0.4	0.4
(F) Growth Rate (%)				
Revenue	22.5	1.4	6.9	13.3
EBITDA	51.9	17.7	(9.9)	18.7
EBIT	64.2	19.2	(13.7)	19.7
PBT	65.5	24.5	(13.5)	19.8
APAT	53.7	54.2	(17.6)	19.8
EPS	53.7	54.2	(17.6)	19.8

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,688	8,551	4,112	6,363
CFI	(5,231)	(6,789)	(876)	(1,005)
CFF	595	(1,953)	(2,996)	(954)
FCFF	(544)	1,762	3,236	5,358
Opening Cash	494	545	354	1,226
Closing Cash	545	354	594	5,631

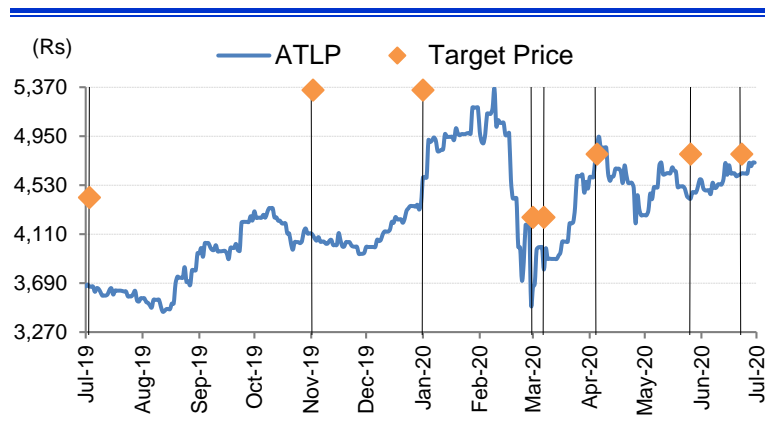
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Accumulate	4,424	3,661
Nov-19	Accumulate	5,346	4,100
Jan-20	Accumulate	5,346	4,596
Mar-20	Buy	4,254	3,654
Mar-20	Reduce	4,254	3,807
Apr-20	Reduce	4,797	4,870
Jun-20	Accumulate	4,797	4,414
Jul-20	Reduce	4,797	4,633

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
